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SUBJECT: AMBASSADOR SEES ARID ECONOMIC LANDSCAPE IN VAYOTS
DZOR

REF: YEREVAN 016

¶1. (SBU) SUMMARY: During the Ambassador's early August trip to Vayots Dzor marz, she found a region struggling to dig out of an economic hole. Local mayors, the governor, NGO leaders and business groups all noted that the arid region, over 100 kilometers southeast of Yerevan, faced an uphill struggle. Several agricultural interests -- a goat breeding center and winery -- provided evidence of scaleable, successful projects amidst economic hardship. Regional tourism projects, however, seemed products of Soviet-style central planning more than sound business development attuned to market realities. END SUMMARY.

HARD TIMES

¶2. (SBU) Vayots Dzor administrative district (marz) holds real potential, Ambassador Yovanovitch heard during her early August trip to the region, but is undergoing a difficult period of economic adjustment. Some interlocutors, including the mayor of the capital Yeghegnadzor, Sirekan Babaian suggested that the area had yet to recover from the post-Soviet collapse. He remembered Vayots Dzor's industrial heyday, when textile, shoe, cannery, dairy processing, machinery, and electrical parts factories hummed along. Now all were shuttered and industry had largely disappeared. More recently, with the onset of the economic crisis, trade turnover in retail shops had dropped 35 percent, local business leaders said. Construction projects had dried up. Remittances from Russia, an important source of income for an estimated 25-30 percent of marz families, had dropped dramatically. Many young men who had been seasonal workers in Russia in the past had returned home or never left this year. Without jobs in the marz, most now worked on family land or previously untended plots for personal consumption or barter, since "they don't know how to access markets to sell their goods," Babaian said.

GREEN SHOOTS

¶3. (U) The Ambassador did witness some impressive examples of economic development amidst this hardship. Representatives of the USDA-supported ARID Goat Center in Yeghegnadzor told of very successful efforts to use crossbreeding of local with American breeds to increase milk production in the offspring by 350-400 percent. Milk collection units gave farmers a ready market for their milk, while cheese-making technology transfer resulted in the sale of high-quality goat cheese into the Armenian market. Outreach to farmers and word-of-mouth had expanded the program's reach to 28 cooperating commercial farms in 14 communities, where over 2,500 crossbreds are generating good income for farmers.

¶4. (U) A visit to Getnatun Winery provided another example of local entrepreneurial spirit combined with U.S. assistance to

create a thriving local enterprise. USDA technical assistance over several years, as well as Millennium Challenge Corporation-funded drip irrigation, contributed to the emergence of a healthy local winery buying 200 tons of grapes from 120 local farmers and selling over 150,000 bottles per year to local and Russian markets.

GRAND PLANS

15. (SBU) Still, while those few green shoots were visible in this parched economic landscape, more prominent still were the challenges ahead. Regional officials proudly spoke of the tourism potential of the marz, particularly of Jermuk -- the hilly, green, and relatively clean resort town in the easternmost section of the marz. The Ambassador heard that President Sargsian had declared tourism development in Jermuk a national development priority, thus demonstrating the political will to achieve real results. Yet the path from high-level political will to significant expansion of regional tourism was less than clear. As Shirak Mikayelian head of a local NGO, worried, the Jermuk strategy seemed to rely more on central planning methods and best-case scenario projections than organic economic growth strategies built upon current conditions.

16. (SBU) Jermuk, with its dramatic gorges, forested hills, and medicinal spring waters popular since Soviet times, clearly holds potential. Yet the Ministry of Economy-directed development strategy calls for an increase in visitors from last year's (admittedly depressed) 5,000 to

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100,000 by 2015. At its peak during the Soviet era, Jermuk saw 25,000 visitors per year.

17. (SBU) One key to GOAM plans to hit its target has been to make Jermuk a year-round attraction. To that end, it has constructed a ski resort to complement the spa treatments that have long drawn visitors. Moreover, plans are afoot to establish a rail link from Yerevan to Jermuk (financing tbd), to build new IT infrastructure to give the region first class internet and cable access (financing tbd), and to build a "Disneyland"-type theme park on the site of the old airport to give guests something to do when they aren't on the slopes or drinking the natural spring water. (The Ambassador was also told a new airport would be constructed, not on the old site, but rather at the top of a ridge of hills overlooking the city.)

SUB-PAR SERVICE AT A HIGH PRICE

18. (SBU) If nothing else, the plan is ambitious. Reaching 100,000 visitors a year appears even more so when considering the spa/ski experience available is not currently competitive on price with other European alternatives. According to a USAID project advisor, a vacation in Jermuk runs about 50 percent more than a comparable vacation in Lithuania. For the same price, he said, vacationers could choose a spa/ski resort experience in Switzerland with superior service and amenities.

19. (SBU) Hotel owners' attitudes at present are part of the problem. Several contacts suggested that the "oligarchs" who own the hotels (or, depending on whom one talks to, the single oligarch, Arshot Arsenian, owner of the Jermuk Group, who controls everything in the town directly or through intermediaries) are only interested in running "elite" institutions. They would rather have ten percent occupancy at full (non-competitive) price than a hotel filled with "riff-raff," as one observer put it. There has been talk of the government instituting tax incentives for hotel owners who charge more competitive prices, but no action as yet.

BUT WAIT, THERE'S MORE

¶10. (SBU) Jermuk's challenges go beyond its international competition. President Sargsian's pet project in Jermuk also must compete with what had been former President Kocharian's pet development project -- the ski facilities at Tsakhkadzor, one hour northeast of Yerevan. Like Sargsian now, Kocharian had visions of creating a regional attraction with first-class facilities. What he ended up with was a decent set of intermediate ski runs serviced by unimpressive hotels and an absence of other local attractions/amenities. Thus, even Yerevan residents might ask themselves why they should drive three and a half hours through winding winter roads to Jermuk for what, at least at present, would be the same experience an hour away at Tsakhkadzor.

¶11. (SBU) Still, Jermuk boosters believe they have a distinct comparative advantage -- the water. A 1951 Soviet study, the Ambassador heard, determined that Jermuk spring water held special medicinal properties. Jermuk's Chief Doctor indicates that the waters are particularly useful for "digestive tract disorders; musculo-skeletal and locomotive system disorders; liver, kidney, pancreas and gall bladder diseases; endocrinological and hormonal disorders; neurological diseases; diabetes; and gynecological, dermatological and proctological diseases."

¶12. (SBU) Indeed, the "Jermuk" name still holds positive connotations for many in the former Soviet Union who equate it with good health. For those without those positive historical associations, though, promoters of Jermuk tourism may face a challenge in luring tourists with claims of medicinal invigoration. One indication of the challenge: a Google search for "jermuk waters health effects" yields five entries on the arsenic content of the water (e.g. the first entry: "FDA Warns Consumers Not to Drink 'Jermuk' Brand Mineral Water... The most likely effects include nausea, vomiting, diarrhea...") before an entry making claims about the positive effects. Little things at the site of the springs also point to the challenges ahead. For one, the tourists lining up to drink the water were not exactly a vision of health -- a scene more reminiscent of a Soviet bread line than an energy drink commercial. The pesticide sprayer wearing a white haz-mat suit and goggles doing his rounds past the springs also pointed to a likely gap between what former Soviet citizens and western spa tourists might

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consider good for their health.

BOTTLING BUSINESS BOOMING

¶13. (SBU) The two Jermuk bottling operations (the only real industry in the city besides tourism) had put the arsenic problem behind them, the Ambassador heard. New equipment was now reducing any toxins to acceptable levels, and the bottling businesses hoped, once FDA approval comes, to resume exports to the U.S. by year's end. For now, 85-90 percent of sales were domestic, with most export sales going to Russia.

¶14. (SBU) Business for the two companies was good, we heard, in part because they had been able to snuff out any competition. In one well publicized case, and another illustration of how politics can drive economics, opposition oligarch (a supporter of opposition leader Levon Ter-Petrossian) Khachatur Sukiasian saw his Bjni mineral water plant auctioned off by the government earlier this year after his failure to pay fines for alleged tax evasion (reftel). Sukiasian says the charges were politically motivated. Regardless, the government action against him was a boon to the Jermuk Group and Jermuk Mayr Gortsaran bottling

plants that remain. Their prospects could improve further still if a draft law, which would restrict usage of the "Jermuk" name to those operations bottling in the town proper (in the interest of quality control, the Ambassador was told) soon passes Parliament. Political will in this case at least, according to some, looks like it could translate into direct financial benefits for these two, favored business interests in the marz.

COMMENT

¶15. (SBU) The trip revealed pockets of entrepreneurial spirit as well as the lingering influence of top-down economic planning, and demonstrated the need for more firm-level assistance in the region to nurture the former. USAID is currently reviewing the micro-economic conditions and the business enabling environment in the marz so as to target assistance most effectively.
YOVANOVITCH